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CURRENT INTELLIGENCE WEEKLY SUMMARY



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CURRENT INTELLIGENCE WEEKLY SUMMARY

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THE WEEK IN BRIEF

PART I

OF IMMEDIATE INTEREST

CONGO Page 1

UN Secretary General Hammarskjold returned to the Congo on 11 August with his hand strengthened by the UN Security Council resolution calling on Belgium to withdraw its troops entirely and by Katanga Premier Tshombé's agreement to the entry of UN forces into his province. Congo Premier Lumumba continued, with support from other independent African states, to breathe threats against Tshombé and other advocates of a looser Congo constitutional structure, but his own position in Leopoldville may be undermined by local dissidents. Rioting broke out there on 9 and 10 August and there are rumors that a coup may be attempted in the capital around mid-August. Brussels may still hope to avoid a firm commitment to withdraw from its Congo bases. Soviet officials meanwhile are continuing their attempts to stimulate further dissatisfaction among African countries with the UN's efforts--already criticized by Ghana and Guinea--and apparently are lining up support for a demand that UN forces withdraw.

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THE LAOTIAN COUP Page 3

The coup initiated by the 2nd Parachute Battalion on 8 August appears still to be limited to the Vientiane area. Tiao Somsanith, premier of the legitimate government, is in Luang Prabang with part of his cabinet and claims that his government will function there until the army can restore order in Vientiane.

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The Somsanith government will have difficulty suppressing the rebellion militarily, and may become inclined to reach some kind of compromise with the revolutionaries. The "revolutionary committee" in Vientiane has created a provisional executive committee composed of a diverse group of politicians and military men, most of whom have various grievances with the Somsanith regime. The rebels' pronouncements contain a strong anti-American tone and indicate that, if the coup is sustained, Laos will undergo a decided shift toward neutralism and accommodation with the Communist Pathet Lao.

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PART II (continued)**DEVELOPMENTS IN SOVIET FOREIGN RELATIONS Page 5**

Khrushchev's broad hint in Pravda on 9 August that he might participate in the UN General Assembly debate on disarmament this fall suggests that he sees a repeat performance as a means of refurbishing the peaceful image he attempted to create last September, when he unveiled his scheme for complete disarmament. He also used the Pravda interview to renew criticism of Western disarmament policy, and his letter of 4 August to Prime Minister Macmillan continued to reflect the tougher, more militant line that has come to dominate the conduct of Soviet policy since the summit collapse. On the crucial issue of Berlin and a German treaty, however, Khrushchev reaffirmed to Macmillan his early post-summit commitment that unilateral Soviet action would be deferred until the issues could be discussed at another summit.

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DEVELOPMENTS IN CUBA Page 7

Preparations are evidently under way for the delivery of bloc arms to Cuba. Neither Soviet nor Czech arms are known to have arrived in Cuba. Fidel Castro reached new heights of anti-US violence in his 7 August harangue at the closing session of the Latin American Youth Congress, at which time he announced the nationalization of most of the remaining American property in Cuba. The vigorously anti-Communist pastoral letter which was read in all Catholic churches in Cuba on 7 August marks the end of the church's cautious position on the Castro regime.

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PART II**NOTES AND COMMENTS****AMERICAN FOREIGN MINISTERS' MEETINGS Page 1**

The Latin American countries at the first of the two foreign ministers' meetings in Costa Rica beginning 16 August are expected to consider economic sanctions against the Trujillo dictatorship in the Dominican Republic, but adoption of such measures is uncertain, since some governments oppose the establishment of precedents for use against Cuba. In the meeting to follow, Argentina and several of the Central American governments are particularly interested in taking a hard line on Cuba and on the question of Soviet intervention in the hemisphere; Mexico, with some support from Bolivia and Uruguay, may lead the opposition to any anti-Castro move.

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PART II (continued)**SITUATION IN THE DOMINICAN REPUBLIC Page 2**

Generalissimo Rafael Trujillo continues to rule the Dominican Republic through Joaquin Balaguer, the former vice president who was elevated to the presidency on 3 August after the dictator's brother resigned. Balaguer has removed members of the Trujillo family from the military high command and has carried out a meaningless reshuffle of the cabinet. The dictator apparently is engaged in maneuvers designed to convince the American foreign ministers meeting in Costa Rica that he has lost control. [REDACTED]

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FANFANI GOVERNMENT IN ITALY APPROVED Page 3

Premier Fanfani's minority cabinet, made up entirely of Christian Democrats, has been confirmed with the broadest parliamentary support given any Italian government in 12 years. For the first time during this period, the Nenni Socialists refrained from opposing a new cabinet. Fanfani's decision to reconvene the Chamber of Deputies on 5 September emphasizes the need for urgent action on controversial legislation. Modification of the provincial electoral law is to be considered in an effort to pave the way for local elections in the fall. [REDACTED]

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FINLAND PURCHASES ADDITIONAL ARMS FROM SOVIET UNION . . . Page 4

Under a new agreement reached in Moscow late last month Finland will make its second purchase of Soviet military equipment in little more than a year. The materiel, which has a total purchase price of some \$16,000,000, includes helicopters, tanks, automatic rifles, and machine guns, and is covered by the long-term commodity credit which was extended by the Soviet Union last December. Finnish President Kekkonen, who has been influential in seeking to develop closer contacts between military officials of the two countries, apparently has overcome the objections of Finnish military leaders opposed to such contacts as well as to large-scale purchases of Soviet military equipment. [REDACTED]

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PART II (continued)**NORTH VIETNAM'S DEFENSE MINISTER UNREPORTED SINCE EARLY MAY Page 7**

General Vo Nguyen Giap, Hanoi's minister of defense and one of the top five members of the politburo, is not known to have made a public appearance since 6 May. His recent reappointment to several important government posts seems to rule out the possibility of political eclipse, at least for the time being. Nevertheless, Giap may oppose using the army as a labor corps, and he has been reported at odds with Truong Chinh, the party's tough-minded theoretician, over the degree of emphasis to be given political activity in the army. The army's political commissar, a protégé of Truong Chinh, was last year given equal rank with Giap, apparently in a move to increase political control over the army.

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COMMUNIST CHINA DEVELOPING ALUMINUM INDUSTRY Page 8

Communist China today possesses a fast-growing, technically modern aluminum industry. Current plans indicate continued rapid growth and attainment of self-sufficiency in aluminum production in the next three or four years.

PEIPING MOVES TO SETTLE BORDER DISPUTES WITH BURMA AND NEPAL Page 9

Peiping has moved to clear up border problems with Burma and Nepal. The Chinese appear to have compromised on the main points at issue in the long-standing Sino-Burmese boundary dispute and to have made a satisfactory reply to Nepal's recent protest over alleged Chinese troop incursions. The initiative demonstrated by Peiping in both cases is also intended to place on New Delhi the responsibility for the continued deadlock in the Sino-Indian border dispute.

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INDIA CURBING CHINESE COMMUNIST ACTIVITIES Page 11

New Delhi's recent actions in expelling 16 Chinese Communist nationals and closing down New China News Agency (NCNA) facilities in India point up the Nehru government's continuing vexation with Peiping's policies. Peiping has protested the move against NCNA, but probably does not want the issue to jeopardize joint "fact-finding" talks on the Sino-Indian border dispute, which are about to be reconvened in New Delhi.

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PART II (continued)**INDONESIAN DEVELOPMENTS Page 11**

There are numerous reports that President Sukarno will announce the nationalization of the Dutch share of the Shell oil company on 17 August, Indonesian independence day, in retaliation for the recent arrival of Dutch naval units in Indonesian-claimed Netherlands New Guinea. The Dutch ships, which reached Hollandia on 2 August, will tour other West New Guinea ports this month and are to leave the area on 30 August. Sukarno is also likely to announce the formation of his long-planned National Front, an all-inclusive organization intended to ensure mass support for "guided democracy."

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AFGHAN ARMY EXPANSION Page 13

Afghan Prime Minister Daud has increased the size of his army since last summer by about 30 percent to a strength of about 70,000. He relies heavily on the army for support against tribal and conservative religious opposition and also to guard against moves by Pakistan among border tribes. This build-up will place additional strains on an already inadequate command and support structure and will probably lead to heavier reliance on Soviet advisers and arms assistance.

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IRAN Page 13

Open rigging in the elections now in progress for the Iranian parliament will almost certainly weaken the regime. The Shah, although publicly promising free-elections, has not dissociated himself from the irregularities. Some minor violence has been reported from several places in the provinces.

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NYASALAND CONSTITUTIONAL CONFERENCE Page 14

British officials and representatives of Nyasaland political factions achieved substantial agreement during the recent constitutional discussions on the protectorate's political advancement. Nationalist leader Hastings Banda has obtained a significant increase in the number of African voters. He failed to gain African legislative control or a universal franchise, however, and the underlying problem of the protectorate's relationship with the white-dominated Federation of Rhodesia and Nyasaland has not been solved.

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PART III**PATTERNS AND PERSPECTIVES****SOVIET IMPORTS FROM WESTERN EUROPE ON THE RISE Page 1**

The rise in Soviet imports from Western Europe in 1960 has been so great that the USSR's usual export surplus in trade with these countries has been almost eliminated. For the first quarter, Soviet imports from the area amounted to \$160,000,000--double the figure for the corresponding period last year. Mounting requirements for capital equipment from the industrial West will increase the strain on Soviet foreign exchange reserves. As a result the Soviet Union probably will intensify its drive for long-term Western credits, increase gold sales, and attempt to expand exports--in some cases by selling at lower than world market prices.

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ECONOMIC OUTLOOK IN SPAIN Page 2

General Franco, in a mid-July speech, belatedly expressed support for Spain's year-old economic stabilization program. His government, however, has still failed to provide policy guidance to business or to encourage increased private investment to overcome the current economic recession. Labor and business pressure may force a badly needed general wage raise this fall, but resultant inflationary forces would probably offset to some extent the limited progress achieved under the program during the past year.

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DEVELOPMENTS IN FRENCH-ALGERIAN PROBLEM Page 4

Prospects for an early resumption of cease-fire talks between French officials and Algerian rebel leaders are diminishing. Algerian hopes for international support have risen following UN intervention in the Congo, and there has been an upsurge of terrorism and military activity in Algeria. While French public opinion appears increasingly ready to support De Gaulle's preferred solution--self-determination leading to some degree of autonomy including close ties with France--the rebels now may be less inclined to accept such an arrangement. The study commissions Paris has organized among representative elected Algerian officials are expected to begin in mid-September to plan non-political aspects of Algeria's future.

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LATIN AMERICAN ATTITUDES TOWARD INTERNATIONAL AFFAIRS . . Page 7

The two forthcoming meetings of American foreign ministers will probably highlight basic Latin American attitudes on international affairs. All Latin American countries profess a strong attachment to the principle

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PART III (continued)

of nonintervention in the affairs of another country. These countries also show in varying degree an affinity for isolationism, a desire to pursue a course in foreign affairs not wholly identified with that of the United States, and a belief that the United States overrates the menace of international Communism.

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PART I**OF IMMEDIATE INTEREST****CONGO**

UN Secretary General Hammarskjöld returned to the Congo on 11 August to follow up on the Security Council resolution of 9 August, which called for the immediate withdrawal of Belgian troops from the entire Congo. The resolution also, in effect, sought to assure Katanga Premier Tshombé and other dissident provincial leaders that the UN will not interfere with their attempts to negotiate a looser Congo constitutional structure. Tshombé's 9 August decision not to oppose the entry of UN forces into Katanga has eased only slightly the impasse concerning the disputed province. He continues to stress the "independent" status of his province.

In Leopoldville, Congo Premier Lumumba on 10 August threatened an "invasion" of Katanga and hinted at the arrest of Tshombé as a traitor. Lumumba continues to make propaganda capital out of the presence of Belgian troops in the Congo, and regarding Katanga has declaimed that "if Belgian troops want to kill us, we will die for the people." Despite his efforts to reconstitute the Force Publique, Lumumba probably has no more than a few hundred troops loyal to himself and no Congolese aircraft with which to airlift them to Katanga.

According to the American Embassy in Leopoldville, the endorsement by the Abako party of a confederation government on 8 August could presage a coup against the Lumumba regime around mid-August. The em-

bassy reports that several tribal groups, political parties, and labor groups are united in favoring a Congo confederation and may attempt to displace Lumumba in favor of a more moderate figure.

In a possible reaction to rumors of an anti-Lumumba coup, Congolese police on 10 August raided the office of the Abako party, which had passed a motion of no confidence against Lumumba. Several persons, including an Abako vice president, were reportedly wounded when firing broke out. Lumumba also has warned that large numbers of Europeans would shortly be arrested for "plotting against the Congo." The threat may lead to a new exodus of Belgians, including those at Katanga.

Brussels, which has yet to announce its compliance with the UN resolution calling for the "immediate" withdrawal of Belgian troops in Katanga, continues critical of the US for supporting the resolution and for activity allegedly prejudicial to Belgian interests. Brussels may hope to avoid a commitment concerning a date for the evacuation of its Congo bases.

The Belgian cabinet met on 9 August, reportedly to establish a timetable for a Belgian withdrawal from Katanga. It remains unclear whether Belgium will also evacuate its base at Kamina; Brussels may avoid any explicit statement

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concerning the status of this base in the hope that the Lumumba government will fall and be succeeded by a more moderate regime.

African Reactions

Although threats issued by Ghana and Guinea to assist Lumumba militarily outside of the UN framework were probably aimed at inducing the UN to step up pressure on Belgium, Presidents Nkrumah and Touré were probably both prepared to follow through as a last resort. Prior to the Security Council meeting on 8 August, Nkrumah had appealed individually to all members of the independent African-states bloc to support such independent action by Ghana in the event the UN could not arrange the withdrawal of Belgian troops. At the same time, Nkrumah was planning to replace British officers attached to the approximately 2,000 Ghanaian troops now in the Congo with Ghanaian officers in preparation for possible offensive action against Katanga by Lumumba's regime with the help of Ghana and Guinea.

Touré's government went into the UN operation with the idea that Guinea might later "secede" if the UN force did not display "positive action" in support of Lumumba.

Ghana and especially Guinea will probably press for

the inclusion of their troops in a UN task force sent into Katanga. Their exclusion--virtually certain, in view of Nkrumah's and Touré's publicly expressed support for Lumumba and violent condemnation of Tshombé--may lead to new criticism of the UN operation by the two states and perhaps to new assurances to Lumumba. These could include pledges of direct military assistance against Tshombé if he remains in power in Katanga after the Belgians withdraw.

Lumumba is also looking to the special conference of independent African states, which he has announced is to meet in Leopoldville from 25 to 30 August, to strengthen his position vis-a-vis Tshombé and other domestic opponents.

Soviet Moves

The Soviet UN delegation supported the Tunisian-Ceylonese resolution of 9 August calling on Belgium to withdraw its troops from Katanga "immediately," despite the USSR's draft resolution ordering Hammar-skjold to use "all necessary means of enforcement" to bring about the immediate withdrawal. Chief Soviet delegate Kuznetsov explained that the USSR had voted for the Tunisian-Ceylonese resolution, since it "conforms to the basic goal pursued by the Security Council--to ensure the immediate and unconditional withdrawal of Belgian troops

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from the territory of the Congo, including Katanga Province."

Moscow's pronouncements on the Congo continue to avoid committing the USSR to any unilateral action, but at the same time attempt to sustain the impression that Communist bloc countries stand ready to send forces if the present US contingents are unable to enforce the Security Council's resolutions. The Soviet statement of 5 August did not repeat Moscow's earlier threat to "take resolute measures to rebuff the aggressors," but according to TASS, Kuznetsov told the Security Council on 8 August that the USSR was ready to "pool its efforts with the other UN members to cut short the aggression."

Soviet leaders apparently hope that implied threats of unilateral intervention will increase pressure for the early withdrawal of Belgian troops, enabling Moscow to claim credit for having protected Congolese independence and unity.

Soviet propaganda continues to denounce the efforts of Hammarskjold and Under Secretary Bunche, accusing them of "behind-the-scenes intrigues and unworthy tricks" in support of "new adventures" of the colonialists. In the 8 August Security Council meeting, Soviet delegate Kuznetsov charged that the UN force was authorized to overcome any resistance it might encounter and stated that if the "UN Command" was not able to carry out its instructions, it should be replaced.

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THE LAOTIAN COUP

There is as yet no sign that the coup in Laos carried out by the 2nd Parachute Battalion and allied elements on the night of 8-9 August has received support beyond the Vientiane area. A nucleus of the legitimate government, including Premier Somsanith and Foreign Minister Khamphan Panya, is in Luang Prabang with the King.

While Captain Kong Le, the 26-year-old commander of the 2nd Parachute Battalion, remains the ostensible leader of the Vietiane "revolutionary committee," there are strong indications that he is being manipulated by more experienced

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hands. Prominent among his probable backers is Bong Souvannavong, a neutralist politician who long has served as an apologist for the Pathet Lao. Two of Bong's sons, both of whom are considered extreme leftists, appear to have played a particularly important role in the coup. Quinim Pholsena, leader of the left-wing Santiphab party, also may have some influence on Kong Le. Two army generals, both of whom had reason to fear that the rapidly rising General Phoumi intended to shunt them aside, also seem to be associated with the coup group, but their commitment to



KONG LE

the revolution seems open to question.

The position of Prince Souvanna Phouma, the neutralist former premier and one of Laos' leading national figures, seems somewhat anomalous. He is included in the "provisional executive committee" announced by the "revolutionary committee," but does not seem to have been one of the instigators of the coup. He is probably maneuvering to keep his foot in both camps in the not

unlikely event that he should be called upon to serve as a unifying agent if a military stalemate develops between the two contending regimes.

However diverse the elements embracing the "revolutionary committee," they seem fairly united in their desire for a disengagement from Laos' close association with the United States. There also appears to be strong sentiment for contacts with the Sino-Soviet bloc and an end to the "civil war" with the Communist Pathet Lao. One of the first actions of the group, if it were to gain control over all of the country, would almost certainly be the expulsion of American military training teams now working with the Laotian Army in cooperation with the French.

The Somsanith government has clearly indicated that it will try to mount a counter-offensive against the Vientiane group. Planning to this end is still probably in the preliminary stage, but it may include an overland march by loyalist troops at Luang Prabang. Such a venture would be difficult during the current rainy season, however. In addition to terrain problems, overland operations might also be interdicted by pockets of Pathet Lao insurgents, who are able to operate with considerable freedom of action.

The two contending regimes may try to work out some kind

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of compromise. Armed Forces Commander General Ouane has already gone to Vientiane in an effort to find out the rebels' terms.

Any compromise would in all likelihood lead to some loosening of Laos' ties with the United States, a friendlier policy toward the Sino-Soviet bloc, and an effort to reach a negotiated settlement with the Pathet Lao. Such a solution

might involve the installation of Souvanna Phouma as the premier of a broad coalition government.

Communist China so far has not reported the coup; North Vietnamese broadcasts indicate sympathy for the rebels. Although Hanoi has not specifically endorsed the revolutionary committee, it has rebroadcast rebel communiqués and criticized the Somsanith government.

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DEVELOPMENTS IN SOVIET FOREIGN RELATIONS

Khrushchev used a Pravda interview on 9 August to convey a broad hint that he might lead the Soviet delegation to the UN General Assembly this fall. His remarks elaborating on Moscow's proposal that the heads of government attend the session were apparently timed to strengthen the hand of the Soviet UN delegation in preventing a meeting of the UN Disarmament Commission requested by the United States. Khrushchev hinted, as has the Soviet delegation, that the USSR would boycott any such meeting and sought to minimize its value by describing it as a US election maneuver to deceive world opinion.

Although even a brief appearance in New York to address the UN would carry the risk of an adverse reaction in the United States, Khrushchev may see distinct advantages in such a move, possibly in con-

junction with visits to Cuba and Mexico. Raul Castro recently stated that Khrushchev had set a definite date for a trip to Havana, but Mexican officials continue to deny that he will attend independence celebrations in their country in mid-September.

Khrushchev's advisers have probably oversold him on the success he scored last September when he unveiled his complete and general disarmament scheme. A second appearance would provide an opportunity to refurbish the peaceful image which he sought to create at that time.

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The UN would also be a suitable forum to review the Soviet disarmament plans and the failure of

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negotiations, and possibly climax a speech with some dramatic gesture, such as a call for a world disarmament conference.

Khrushchev also used the Pravda interview to renew his criticism of Western disarmament policies, and his letter of 4 August to Prime Minister Macmillan continued to reflect the more militant line that has come to dominate the conduct of Soviet policy since the breakdown of the summit. In the letter Khrushchev dropped the deferential treatment previously accorded the prime minister and sharply attacked British foreign and colonial policies.

The Soviet leader made no serious effort to allay Macmillan's expression of "deep concern" over the future course of Soviet policy. Instead, he attempted to embarrass Macmillan and to advance the broader objective of weakening Allied confidence in US leadership. Beginning with a broad criticism of the prime minister for "deliberately misinterpreting" the causes behind the current deterioration in international relations, "in order to accommodate your allies," Khrushchev also accused Macmillan of "covering up" for the US, assuming a hostile position toward the Soviet Union, and feigning perplexity over Moscow's aims.

On specific issues raised by Macmillan, Khrushchev pulled no punches in criticizing British colonial policy and actions in the Congo crisis. He described British policy as mercilessly exploiting and subjugating many millions of people for hundreds of years, and he ac-

cused London of conniving with and approving of Belgian "aggression" in the Congo.

Khrushchev's heaviest fire, however, was directed toward American overseas bases. Reviewing the U-2 and RB-47 incidents, Khrushchev reaffirmed that Defense Minister Malinovsky's warning of rocket retaliation against bases "remains valid," and that as long as such bases exist, the USSR will undertake "all necessary measures against them." He declared that continuation of the "cold war" is tied to the issue of US bases, and maintained that such a situation could not be liquidated by "any agreement" as long as the bases remained.

On the crucial issue of Berlin, however, Khrushchev reaffirmed his early post-summit commitment that unilateral action on a separate peace treaty would be deferred until the issue could be discussed at another summit meeting. He acknowledged that no meeting was probable until after the US elections, and he implied that the next conference could take up disarmament, a nuclear weapons ban, and the German and Berlin questions. He warned, however, that if the West refused a meeting or prevented agreement, the USSR "would embark on the conclusion of a peace treaty with East Germany."

Khrushchev's renewal of his pledge to maintain the status quo in Berlin, an issue which was not raised by Macmillan, probably was prompted by the widespread speculation in the West that some drastic action is being planned for the US election period.

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in a test ban treaty. The Soviet representative rejected an article calling for accession of states and "authorities" and allowing the control commission to decide which states would be permitted to request admission and which would be invited to sign. He submitted a counter-proposal providing that adherence to the treaty be open to all states which assume the treaty's obligations.

The Soviet delegate cited China as an example of a state which, under the US proposal, would lead to a dispute, since the Soviet member of the control commission would maintain that Communist China should be invited to adhere, while the US would request that Nationalist China be invited. He repeated the standard formula of only "one China" and urged acceptance of the Soviet formula in order to avoid questions arising out of differing views as to status of "certain existing regimes."

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Nuclear Test Ban Talks

While awaiting Western reaction to Moscow's rejection of a US plan for research tests employing nuclear devices, the Soviet delegation raised the issue of Chinese participation

DEVELOPMENTS IN CUBA

Evidence continues to accumulate that advanced preparations are under way for future deliveries of bloc arms to Cuba. A group of Cuban military trainees now may be in Prague for instructions, probably as the initial phase of implementing a bloc-Cuban arms agreement. Neither Soviet nor Czech arms are known to have arrived in Cuba.

On 7 August, Fidel Castro launched the regime's sharpest anti-US attack to date in a speech announcing confiscation of further American properties.

The tirade, delivered at the closing session of the Communist-dominated Latin American Youth Congress, constituted a frank appeal to the Latin American people over the heads of their governments. Castro boasted that neither the US, which he called "militarily second best," nor the "lackey foreign ministers" of the Organization of American States could halt Cuba's revolution and a hemisphere-wide "revolution against the Yankee colonial yoke."

The decree of 7 August under which most of the remaining

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US-owned property in Cuba was nationalized was the regime's most provocative anti-US act yet. Properties expropriated include the electric company, the telephone company, the oil refineries which already had been taken over, and all remaining sugar mills and lands. The total value of these properties is estimated at \$700,000,000. Physical seizure of the nationalized plants clearly was prearranged and was carried out immediately, often by elements of the "people's militia."

The promulgation on 9 August of a decree creating a "National Institute of Mining," which is to operate under the National Institute of Agrarian Reform (INRA) and control Cuban mineral production, may presage the seizure of US-owned mining interests, which were unaffected by the 7 August decree.

These extreme provocations suggest that the regime may even be trying to provoke US military intervention, in the belief this would enhance prospects for a Latin American revolution against "US imperialism."

The pastoral letter which was read in all Cuban Catholic churches on 7 August marks the end of the church's cautious position toward the regime. The letter vigorously attacked Communism and declared that the church is "profoundly disturbed by the fact that newspapermen, labor leaders, and even some government officials have re-

peatedly and enthusiastically eulogized the system of life" in Communist countries.

Response to the letter was varied.

the letter was well received by a majority of congregations in the Havana area, although a number of pro-Castro Catholics allegedly left their churches when the letter was read, and fighting between pro- and anti-Castro elements is reported to have taken place in several areas following the services. The government-controlled press attacked the clergy for not having denounced the brutalities of the Batista regime and declared that if the church were to pit itself against the revolution, "the one who will lose will be the church."

Additional gatherings of Communists and Communist-front groups are scheduled, now that the youth congress is over. "Volunteers" from a number of countries, including most Sino-Soviet bloc nations, are arriving to participate--with many delegates to the congress who have remained in Cuba--in building a "school city" in the Sierra Maestra. Cuba's Popular Socialist (Communist) party is inviting foreign delegates to its eighth congress, which previously was planned for July but now apparently is to begin on 16 August. A congress of Communist parties of underdeveloped countries reportedly will be held in Cuba later this year.

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PART II**NOTES AND COMMENTS****AMERICAN FOREIGN MINISTERS' MEETINGS**

Venezuelan charges of aggression by the Dominican Republic and a Peruvian request for consideration of threats to the hemisphere system will be discussed at two consecutive meetings of American foreign ministers, opening 16 August in San Jose, Costa Rica. At both meetings those who propose some kind of joint action as well as those in opposition are likely to formulate their positions as defense of the principle of non-intervention in the affairs of other countries.

Venezuela's attention is centered on the first meeting, which many of the governments consider a kind of practice run. The Dominican Republic, which is charged with complicity in the attempt on 24 June to assassinate Venezuelan President Betancourt, is expected to appeal to the principle of non-intervention as a shield against joint inter-American action designed to force the eventual ouster of the Trujillo regime. It may also use the recent, purely formal, changes in personnel to claim that the regime has changed and that any charges against its "predecessor" are now irrelevant. While the Trujillo dictatorship is intensely disliked throughout the hemisphere, and the foreign ministers are likely to consider economic sanctions against it, adoption of such measures is uncertain, since some governments oppose establishing precedents for subsequent use against Castro's Cuba.

The Colombian Government, whose President, Lleras Camargo, was for seven years the secretary general of the Organization

of American States (OAS), is placing major emphasis on the preservation of the OAS, which Lleras feels has replaced the Monroe Doctrine as a defense of the hemisphere. Until last month Colombia had supported Venezuela's position--that consideration of Trujillo's regime took precedence over that of Castro's--but a Cuban complaint to the United Nations against the United States at that time convinced Colombian officials that Havana threatened the role of the OAS as the adjudicator of complaints within the hemisphere.

Argentina and several of the Central American governments are particularly interested in taking a hard line on Cuba and on the question of Soviet intervention in the hemisphere. Their awareness of the menace of international Communism was heightened by the intervention of pro-Communist Cubans in their countries.

Mexico, with some support from Bolivia and Uruguay, may lead the opposition to any anti-Castro move. Mexico is said to be planning a unilateral break in relations with the Dominican Republic prior to 16 August to avoid complying with any OAS resolution recommending such action. In that way it would not be bound by precedent in approaching the Cuban question at the subsequent meeting.

Brazil is giving major emphasis to the popular theme of Latin America's economic development. President Kubitschek's desire to pry "massive support" from the United States for his development plan--Operation

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Pan America (OPA)--is resulting in a cautious and neutralist approach to the Cuban problem. Brazil is expected to withhold full cooperation on the Cuban issue at the meeting of foreign ministers unless

it receives from Washington a quid pro quo on OPA or unless other Latin American nations provide substantial unreserved support for US viewpoints.

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SITUATION IN THE DOMINICAN REPUBLIC

Generalissimo Rafael Trujillo has followed up the resignation of President Hector Trujillo, his brother, and the elevation of Vice President Joaquin Balaguer to the presidency on 3 August by making several more government changes in an attempt to clothe his dictatorship with a "new look" prior to the Organization of American States (OAS) foreign ministers' meeting on 16 August in San Jose, Costa Rica. Venezuela's charges that Trujillo's regime is guilty of aggression and of an assassination attempt against President Betancourt will be considered then, but Trujillo apparently believes he can avoid OAS sanctions if he creates an impression that he has relinquished or lost control.

President Balaguer removed two of the dictator's relatives from the military high command immediately after his inauguration and reshuffled the cabinet on 7 August. Four new persons were appointed to the cabinet, but the US Embassy at Ciudad Trujillo has commented that none of them is connected with the opposition. Balaguer, who has been a writer, diplomat, university professor, and, since 1957 vice president, has given no indication that he is acting contrary to Trujillo's desires. In his inaugural speech he said his main job would be to continue Trujillo's "process of democratization."

Trujillo had Balaguer appoint him head of the Dominican delegation to the United Nations session to begin in September. No date for his departure has been announced. Trujillo's appointment does not necessarily mean his loss of control. He has gone abroad before, and on one occasion his departure was followed by a particularly bloody period of repression.



BALAGUER

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the Castro regime in Cuba because it was brought about by a popular revolution. This propaganda line apparently is an expression of Trujillo's extreme bitterness toward the US; however, he may hope his attack will win support for him from anti-US circles in Latin America and leave a heritage of anti-US feeling in the Dominican Republic if he is forced out.

There are recent indications that the dictator, despite his wily tactics, is beginning to realize that his time may be running out. He has already given some members of his family permission to leave the country and he could leave promptly if the situation warranted.

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The government-controlled press and radio have recently made vicious condemnations of "US espionage activities" in the Dominican Republic and throughout the world and have accused Washington of combating

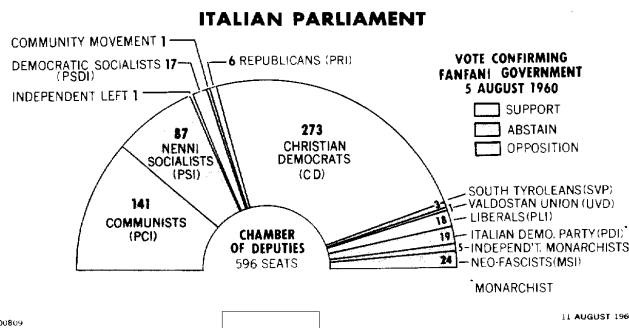
FANFANI GOVERNMENT IN ITALY APPROVED

Premier Fanfani's minority cabinet, made up entirely of Christian Democrats, has been confirmed with the broadest parliamentary support given any Italian government in 12 years. For the first time during this period, the Nenni Socialists refrained from opposing a new cabinet. Fanfani's decision to reconvene the Chamber of Deputies on 5 September emphasizes the need for urgent action

on controversial legislation. Modification of the provincial electoral law is to be considered in an effort to pave the way for local elections in the fall.

Fanfani was confirmed on 5 August by a vote of 310 to 156 with the support of the Christian Democrats, Democratic Socialists, Republicans, Liberals, and three independents.

In opposition were the two extremist parties: Communists and neo-Fascists. Abstaining were the monarchists and the Nenni Socialists, who--for the first time since 1947--did not join the Communists in the opposition. Although they remain linked with the Communists in cooperatives and



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labor unions, the Socialists have achieved substantial political autonomy from their former allies--with whom they differ on such basic issues as the merits of the Soviet system and the responsibility for the failure of the recent summit conference--and are seeking rapprochement with the ruling Christian Democrats.

In presenting his program to parliament, Fanfani said his government favors the development and extension of NATO consultations "on the basis of parity" and will act in agreement with Italy's Western allies for a resumption of the ten-power disarmament negotiations. Domestic goals include: anti-monopoly legislation which would at the same time allow freedom for private enterprise; implementation of a controversial plan for agriculture; school reform, a source of some contention; development of nuclear energy for peaceful purposes; and the holding of local elections in the fall.

These elections will almost certainly not be held in October as originally scheduled. There is increasing support for changing the provincial electoral law from a majority to a modified proportional system. The Nenni Socialists have urged such a change because it would allow them to present tickets free from electoral alliance with the Communists. Such a change is favored by several smaller parties.

While the electoral law is scheduled for discussion at the opening session of parliament on 5 September, technicalities in connection with it will probably delay the local elections until the end of November. There is strong sentiment for putting them off until spring, but most parties are reluctant to accept responsibility for postponing them a full year beyond the original date. Democratic Socialist leader Saragat has stated that further delay would expose the government to criticism.

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FINLAND PURCHASES ADDITIONAL ARMS FROM SOVIET UNION

Under the terms of an agreement signed in Moscow late last month, Finland will make its second purchase of Soviet military equipment in a period of little more than a year. The materiel, which includes 7 helicopters, 31 additional T-54 tanks, 21,000 automatic rifles, 1,000 machine guns, an additional IL-28 aircraft, and ammunition and spare parts, has a total purchase price of some \$16,000,000.

The negotiations have been under way since last spring, and in mid-July the Finnish nego-

tiators returned to Moscow with cabinet authorization to spend up to \$25,000,000--the amount reportedly earmarked by the Finns for military purchases under the long-term ruble commodity credit--for the equivalent of \$125,000,000--signed in Moscow last December.

Little if any of this credit has been drawn upon either for industrial or military purposes, except for token purchases last year of T-54 tanks, an IL-23 aircraft, and a number of diesel motors for small naval craft.

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Before 1959 Finland purchased no Soviet military equipment except motor vehicles for its armed forces, largely because of the attitude of the Finnish military. Unlike the political officials, the military leaders retain a deep distrust and dislike of the Soviet Union and regard dependence on Soviet military equipment as unwise. Moscow, however, has persisted in its offers of military aid--including MIG jet fighters--and has sought to encourage more friendly re-

lations between the higher military echelons of the two countries by visits and exchanges of various types.

Finnish President Kekkonen has been one of the prime movers in the effort to foster closer military ties with the USSR. He has actively supported purchases of Soviet military equipment, apparently in order to balance similar acquisition in the West and thus demonstrate Finland's "neutrality" in this respect. The opposition of certain influential military leaders probably was overcome by the realization that, under present conditions, there is little likelihood of an increase in defense appropriations which would permit significant purchases in the West.

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NORTH VIETNAM'S DEFENSE MINISTER UNREPORTED SINCE EARLY MAY

North Vietnam's General Vo Nguyen Giap, minister of defense and long a trusted lieutenant of Ho Chi Minh, is not known to have made a public appearance since 6 May. Giap has been absent for long periods before--for over two months in late 1957, when he returned with his party and government stature unscathed.

The 48-year-old Giap is a professional soldier who hammered guerrilla bands into a regular army and led it successfully against the French at Dien Bien Phu. His military exploits



VO NGUYEN GIAP

and a flare for oratory have given him a popular following which, together with his control of the army, might be considered potentially dangerous by some of his politburo colleagues. There have been reports of friction between Giap and the party's number-three man, tough-minded theoretician

Truong Chinh, who favors strong political influence in the army.

Truong Chinh's hand probably was strengthened last year when his protégé--Nguyen Chi Thanh, head of the army political department--was given equal military rank with Giap. Thanh's promotion to full general led to speculation that Giap was opposing use of the army as a giant labor corps. Military units devoted an impressive 165,000 workdays to agriculture during the first half of 1960, but complaints about lack of discipline and of "enthusiasm for production" suggest that morale and efficiency have suffered as a result of the labor program.

Regardless of any sniping there may be in the politburo, the possibility of Giap's political eclipse seems to be ruled out for the moment, as he emerged from the recent government reorganization with an impressive list of titles. On 15 July, he was renamed vice premier and minister of defense, made vice chairman of the National Defense Council, and appointed head of the National Scientific Research Commission charged with technical innovations in North Vietnam's economic development plan. It is possible Giap has been traveling to other bloc countries in connection with this commission's program, or that he has been arranging for modernization of North Vietnam's armed forces--illegal under the Geneva agreement.

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The Cairo press recently stated Giap was in North Africa training Arab volunteers for the Algerian rebels. This report, however

seems to have been

based primarily on the fact that the last time Giap was observed, he was in the company of a high-ranking Algerian delegation visiting Hanoi.

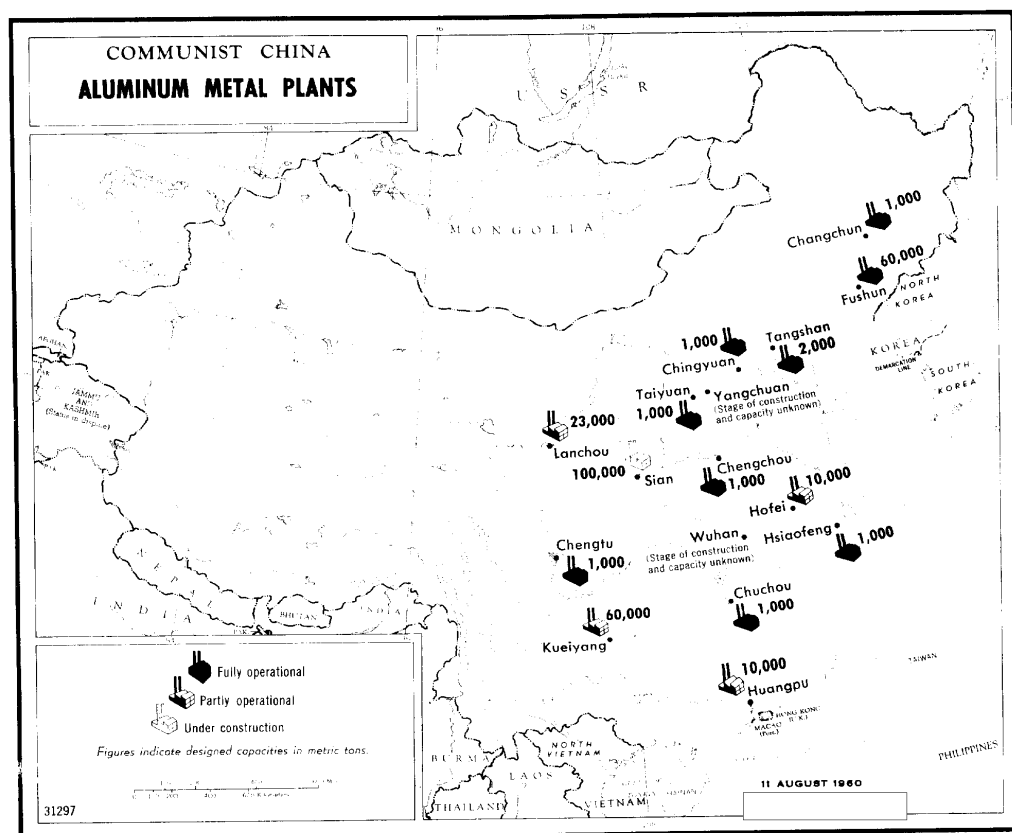
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COMMUNIST CHINA DEVELOPING ALUMINUM INDUSTRY

Communist China today possesses a rapidly growing, technically modern aluminum industry. Output has risen from an initial 2,000 tons in 1954 to 70,400 tons in 1959.

shun plant, the sole producer up to 1957, has been expanded to 60,000 tons annually. Additional facilities now under construction will give China a total designed capacity for



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Current plans are for an output of 180,000 tons for 1965, and this goal appears conservative in view of construction now under way on new production capacity. Capacity at the Fu-

aluminum production of over 270,000 tons. Some of these are in early stages of construction; others have begun limited operations. The auxiliary facilities necessary for a fully

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integrated, self-sufficient aluminum industry also are under construction.

Serious technological difficulties, relating primarily to the necessity of using inferior raw materials, have had to be overcome. Almost all of the aluminum ores available in Communist China have a high silica content and, when processed conventionally, involve considerable waste and yield an inferior aluminum. The Chinese dealt with this problem by adding a preparatory process --developed by the Japanese and later improved by the USSR--

which results in a product that can be processed by conventional methods. Despite this evidence of technical competence, China's aluminum industry operates at high real costs compared with Western standards.

Imports accounted for about 10 percent of new aluminum supplies in China in 1959. The regime has placed a high priority on the achievement of self-sufficiency in aluminum production, and sufficient new capacity appears to have been undertaken to make this objective attainable within the next three or four years.

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PEIPING MOVES TO SETTLE BORDER DISPUTES WITH BURMA AND NEPAL

Peiping has moved to clear up border problems with Burma and Nepal as part of its effort to counter the image of an aggressive China. The Chinese appear to have compromised on the main points at issue in the long-standing Sino-Burmese boundary dispute and to have made a satisfactory reply to Nepal's recent protest over alleged Chinese troop incursions.

Premier Chou En-lai has sent Nepalese Premier Koirala a series of conciliatory replies to his protest on 11 July that Chinese troops had crossed into Nepal's territory in the course of photographic and survey missions. Koirala's charges followed the Sino-Nepalese clash in the Mustang area on 27 June. Chou's replies were intended to smooth the path for the joint Sino-Nepalese talks on border demarcation to be held in Katmandu and to deny India the opportunity to point to incidents along the Sino-Nepalese border as proof of Chinese aggression.

Although Chou again denied that Chinese troops had entered Nepal, he stated that the forces had been entirely withdrawn from the demilitarized zone, and claimed that Koirala was "misinformed" over reports of new incursions. According to Nepalese officials, Chou also offered "profuse apologies" for the Chinese action in extracting "confessions" from ten Nepalese villagers at the time of the Mustang incident. While reserving his government's stand that Chinese troops crossed into Nepal at the time of the Mustang incident, Koirala reportedly is satisfied with the Communist replies and expects a speedy resolution of the disputed border areas.

Peiping has used the recent progress toward a solution of the long-standing Sino-Burmese dispute to prove that New Delhi is to blame for the deadlock in the Sino-Indian boundary negotiations. Chinese commentary on the agreement reached on 2 August by a joint Sino-Burmese

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border commission has stressed that the settlement of any boundary question "cannot depend on unilateral efforts alone," and that the progress of Sino-Burmese talks was proof that "complicated boundary questions" can be settled by peaceful negotiations, provided both governments and leaders are willing.

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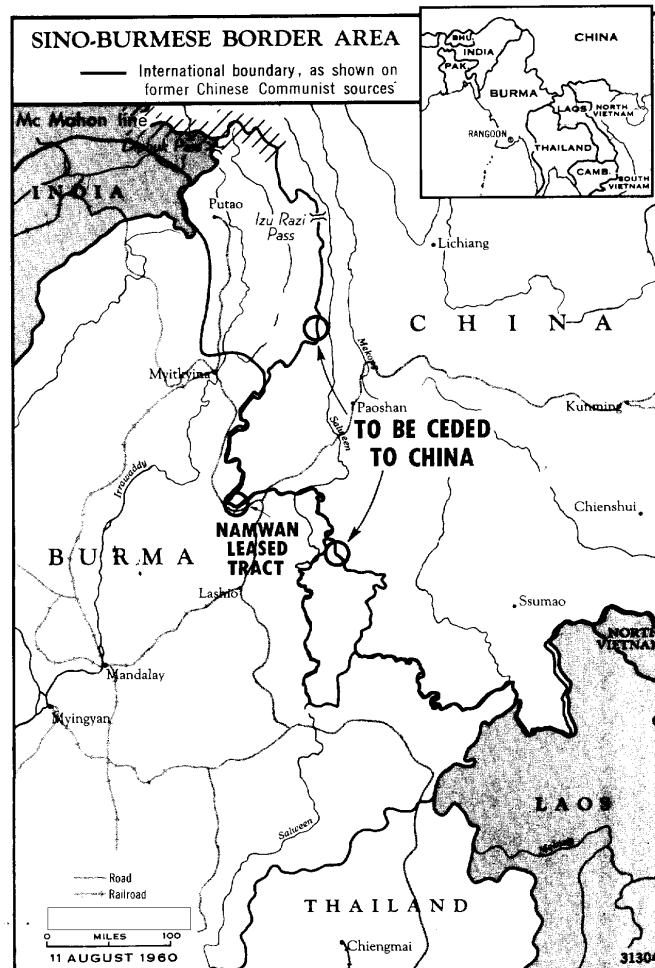
In the agreement, which is to be the basis for a final border treaty, Peiping accepted the Burmese definition of the extent of the Kachin State area in the north to be ceded to China and granted Burma clear title to the Namwan Leased Tract in return for a small segment of the Wa States in the south. The Burmese hope the treaty will be ready for signature during Prime Minister U Nu's prospective visit to Peiping in October.

The Chinese will undoubtedly use the visit of Foreign Minister Chen Yi to Afghanistan in late August to bolster the impression of a China anxious for "peaceful coexistence" with its neighbors.

During the visit of the delegation led by Afghan Prime Minister Naim to Peiping

last September, special interest was shown in Chinese agricultural methods, and Kabul now may seek some Chinese technical aid to increase food and textile production under its Second Five-Year Plan (1961-66). Kabul will probably welcome a friendship treaty as a means of emphasizing that it remains aloof from tensions between Communist China and some other Asian countries.

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INDIA CURBING CHINESE COMMUNIST ACTIVITIES

New Delhi's recent actions in expelling Chinese Communist nationals and closing down New China News Agency (NCNA) facilities in India point up the Nehru government's continuing vexation with Communist China's policies.

In late July, 16 Chinese residing in Bengal were reportedly ordered to leave the country. At least three of them were born in India and were associated with the Communist journal China Review. These expulsions, some of which have been confirmed by official sources, appear designed to curtail Communist activities among the large Chinese minority living in eastern India.

The action against NCNA was slow in unfolding. New Delhi had long been disturbed by NCNA's activities in India, but the agency's slanted reporting on the recent government workers' strike apparently brought the issue to a head. India refused to renew the visa of Kao Liang, NCNA's correspondent in New Delhi, charging him with malicious and tendentious reporting. New Delhi reportedly then refused to issue a visa for his proposed replacement and ordered the Chinese to vacate NCNA office space and com-

munications facilities. Peiping withdrew the correspondent and his staff with an air of aggrieved innocence and lodged a protest with the Indian Government denying the "unreasonable" Indian charges and demanding restoration of NCNA's facilities in New Delhi.

Apart from propaganda and diplomatic protests, Chinese recourse is limited, for there are no Indian newsmen in China. Peiping may attempt to harass Indians residing in China, but it is unlikely to take any action that would jeopardize the joint "fact-finding" talks on the border dispute which are about to be reconvened in New Delhi.

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INDONESIAN DEVELOPMENTS

President Sukarno is expected to announce some anti-Dutch move on 17 August, Indonesian independence day, in retaliation for the recent arrival of Dutch naval units in Indonesian-claimed Netherlands New Guinea. [redacted]

[redacted] Sukarno is considering nationalization of the Shell oil company in Indonesia, or at least the Dutch share of it. Although nationalization of only the Dutch part would be extremely complicated, inasmuch as the company

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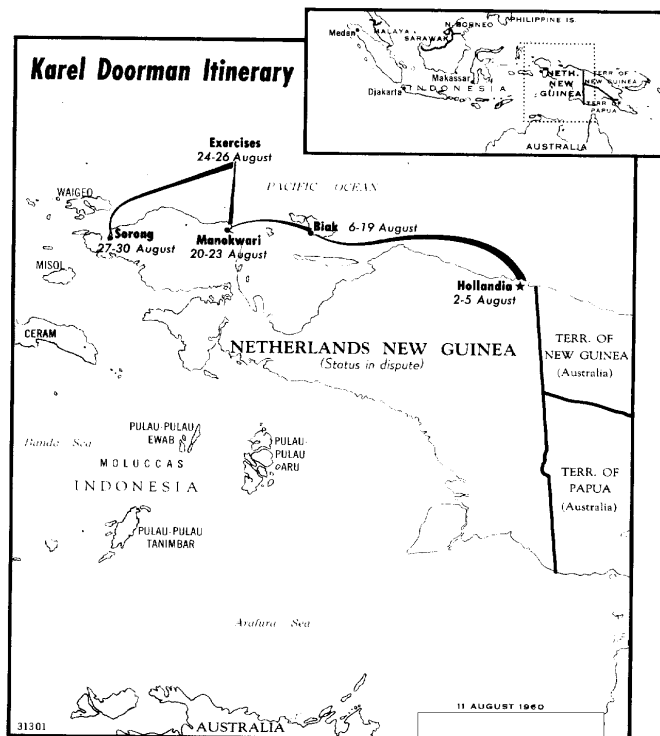
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now is held by Canadian Shell and Shell Overseas of London, Sukarno would give little consideration to such a factor.

The Dutch ships, which include the aircraft carrier Karel Doorman and two cruisers, arrived at Hollandia on 2 August

revived Indonesian public concern over the Dutch naval movement, and President Sukarno's speech on 17 August, which is likely to be highly emotional and extremely nationalistic, will further increase tension. The most critical period will be from 24 to 26 August, when the Dutch ships will be engaged in exercises north of New Guinea.



Sukarno may also announce the formation of his long-planned National Front, through which all political and functional groups would work with the government. The front, whose organization will extend to local levels, is intended to be the principal vehicle for ensuring mass support of "guided democracy." Despite the apparent goal of harnessing political parties, it is unlikely that the front will significantly hamper the Communists.

Sukarno continues to withhold his full support from army harassment of the Communists. Since

and will tour other West New Guinea ports this month; they are scheduled to leave the area on 30 August. Their presence poses the possibility of an armed incident as a result of chance encounters with Indonesian air patrols. Djakarta has deliberately

army measures against them began in mid-July, Sukarno has in effect reassured the Communists by stating publicly that his views coincide in many areas with those of the party.

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AFGHAN ARMY EXPANSION

The Afghan Army has been expanded since last summer from a force of about 54,000 officers and men to approximately 70,000. This increase continues an expansion begun two years ago, when army strength was estimated at 44,000.

Prime Minister Daud relies heavily on the army to overcome tribal and conservative religious resistance to his development and reform programs. He also wishes to guard against moves by neighboring Pakistan among the frontier tribes.

When the army was increased to 54,000 men in 1959, Daud sent additional troops to the Push-toon tribal areas near the Pakistani border. This initial expansion, however, was not sufficient. The heavy concentration of troops normally stationed in the Kabul area was substantially reduced by diversions to the tribal areas. The latest expansion may enable Daud to re-

store the Kabul garrison to full strength while maintaining the enlarged force in the tribal areas.

In addition, the expansion will enable the army to satisfy the increased demands on it as the chief source of conscript labor for economic development projects. Work has begun on several Soviet-assisted projects, including dams, the Kushka-Kandahar road, and the Kabul airport, all of which will require large numbers of workers.

By placing an additional burden on the army's already inadequate command structure and support organizations, the rapid build-up will probably reduce the general effectiveness of army units, at least temporarily. At the same time, officers and noncoms may come to rely more heavily on Soviet military instructors and advisers in performance of their duties.

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IRAN

Elections to the Iranian parliament are now in progress, and the open rigging will reflect unfavorably on the government and the Shah. The Shah, although publicly promising free elections, is trying to assure an obedient new parliament. The disorders which have been reported from several places in the provinces suggest that strong security measures will be necessary for the still-unscheduled Tehran elections. However, these will have to be held by early October if parliament is to open on schedule.

In the important city of Isfahan an influential moderate candidate has been arrested and is being held incommunicado. The Shah has ordered that a popular nationalist candidate in another constituency be defeated "at any cost."

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The clumsiness of the present rigging will probably alienate many otherwise complacent voters, and the increased intriguing which can

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be expected against the Shah and the government will probably find a broader basis of support.

The Shah has probably been shielded from the realities of the current situation--as has been the case in the past--by the self-serving hangers-on who form most of his retinue. He has been told several times of the dangers of the present course but appears to regard such warnings as based on

ignorance of the true situation.

The removal on 8 August of General Aryana from his post as chief of the ground forces is officially because of "in-subordination." The Shah may have felt that Aryana was gaining too much power and popularity or may have thought the was engaging in intrigues against the throne. Aryana has been appointed to a sinecure as adjutant to the Shah. 25X1

NYASALAND CONSTITUTIONAL CONFERENCE

British officials and representatives of Nyasaland political factions reached substantial agreement during the recent constitutional discussions on the protectorate's political advancement. Nationalist leader Dr. Hastings Banda accepted a solution which gave the Africans much less power than he had demanded. As a result of the conference, relations between Britain and Nyasaland nationalists are unusually amicable, but the underlying problem of the protectorate's relationship with the white-dominated Federation of Rhodesia and Nyasaland has not been solved.

Banda has waged a virulent campaign for Nyasaland's separation from the Federation since

he arrived in his homeland in July 1958 after years of self-imposed exile in the United States and Britain. He was imprisoned for his part in the Nyasaland disorders of early 1959, and upon his release in April 1960 seemed intent on pursuing his extreme African nationalist objectives. Although he counseled nonviolence, there was an implied threat of disorders if his sweeping demands for African advancement were not met. Banda was greatly impressed, however, by British Colonial Secretary Macleod, whom he has characterized as a "Christian gentleman" and one with whom he can cooperate.

The talks began in London on 25 July with all segments

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of Nyasaland political opinion represented. Banda demanded universal African suffrage, African control of the Legislative Council, and an Executive Council--containing heavy African membership--which would be more than advisory to the governor. London agreed that Africans will elect 20 of the 33 members on the Legislative Council, but refused to appoint more than three Africans to the ten-member advisory Executive Council. Furthermore, although close to 100,000 natives now will be eligible to vote, suffrage will be far from universal and will be subject to income, property, and literacy qualifications. Banda still hopes to obtain Britain's agreement to elections in November rather than in 1961.

Banda's acquiescence to the terms of the conference has

prompted speculation he may have been reassured that in the forthcoming constitutional review of the Federation of Rhodesia and Nyasaland, Britain will espouse greater autonomy for Nyasaland. His attitude is also seen as a sign of confidence in his ability to control his nationalist Malawi Congress party.

The successful conclusion of the Nyasaland talks will give Britain a breathing spell in Central Africa, which is increasingly becoming caught up in the tension and conflict of nationalism and racialism. However, the nationalists of Nyasaland are not likely to remain content for long with anything less than African control of the protectorate's internal affairs and an early severance of ties with the white-controlled Rhodesian Government.

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PART III**PATTERNS AND PERSPECTIVES****SOVIET IMPORTS FROM WESTERN EUROPE ON THE RISE**

The rise in Soviet imports from Western Europe in 1960 has been so great that the USSR's usual export surplus in trade with these countries has been almost eliminated. Mounting requirements for capital equipment from the industrial West will increase the strain on Soviet foreign exchange reserves. As a result the Soviet Union probably will intensify its drive for long-term Western credits, increase gold sales, and attempt to expand exports--in some cases by selling at lower than world prices.

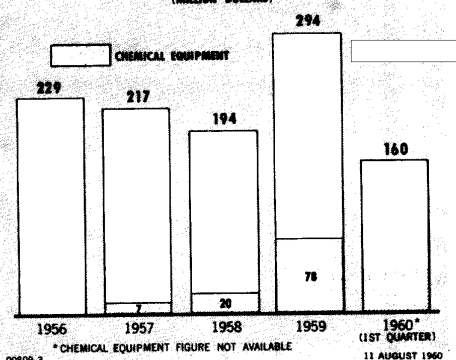
Soviet imports from Western Europe for the first three months of 1960 amounted to \$160,000,000--compared with \$80,000,000 for the same period in 1959; exports totaled \$168,000,000, barely keeping pace with the level achieved in 1959.

The increase in imports reflects to a large extent increased imports of plant equipment for the Seven-Year Plan (1959-65). The importance of Western machinery and equipment for the achievement of plan goals was evident in the \$100,000,000 increase last year over 1958 in imports of machinery and equipment from the West, following a three-year period during which such purchases declined gradually. The most spectacular rise--to four times the 1958 level--was in chemical equipment, three fourths of which came from Britain and West Germany.

The USSR is expected to buy \$750,000,000 worth of chemical plants and equipment from the West during the Seven-Year-Plan period. An estimated \$100,000,000 worth had been imported by the end of 1959, indicating even larger imports in the next few years. The \$250,000,000 worth of equipment ordered in 1959--largely from West Germany, Britain, Italy, and France--will be reflected to a much greater extent in Soviet imports this year. Orders for food-processing, metallurgical, electronic, and other equipment are expected to inflate Soviet purchases even more.

Since the USSR relies greatly on foreign exchange

SOVIET IMPORTS OF MACHINERY AND EQUIPMENT FROM THE INDUSTRIAL WEST
(MILLION DOLLARS)



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earned from such countries as Britain to finance raw-materials purchases from certain underdeveloped countries, a continued high level of imports from Western Europe would cut deeply into the USSR's supply of

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foreign exchange. To induce increased commodity exports in order to pay for import needs, the USSR in the past has resorted to price-cutting on world markets.

Such tactics no doubt played a significant role in the stimulation of sales to the West. In fact, the USSR achieved an export surplus in commodity trade with the industrial West in 1959 amounting to \$100,000,000, the largest since 1955. The surplus, however, was apparently inadequate to offset a deficit in the Soviet balance of payments in 1959, and the USSR sold a considerable amount of gold--estimated at \$350,000,000. Soviet gold has appeared in international bullion markets again this year, with sales exceeding \$50,000,000 by the end of May.

Realizing the increased pressures on its foreign ex-

change position, the USSR has waged a campaign to obtain long-term credits from the West. Thus far Moscow has already obtained promises of at least \$250,000,000 in government-guaranteed private credits, and has contracted for at least \$100,000,000 worth of goods under them. Nevertheless, because of the anticipated large volume of Soviet equipment purchases from the West during the next few years, it is unlikely that Western credits will be large enough to offset the expected balance-of-payments deficit.

Repeated statements by Khrushchev that the USSR conducts its trade on the basis of goods exchange, as well as continuing reports of Soviet price-cutting on Western markets, indicate that Western businessmen can expect continually growing competition from Soviet goods.

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ECONOMIC OUTLOOK IN SPAIN

The Spanish Government's failure to provide policy guidance to business and to encourage increased private investment tends to prolong the country's economic recession. Cabinet officials still disagree as to what steps should be taken to effect an upturn. Labor and business pressure may force a badly needed general wage raise this fall, to offset the feeling of the workers that their interests are being neglected under the year-old economic stabilization program. Any sizable

pay hike would probably generate inflationary forces, thereby threatening the program's further success.

Governmental Inaction

The stabilization program has succeeded in controlling inflation and strengthening Spain's balance-of-payments position, but industrial output is expanding at a snail's pace. Businessmen are reluctant to increase investment, largely because of doubts about the future. The struggle

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in the cabinet between champions and foes of the stabilization program is not likely to be resolved soon, despite the fact that Franco in a mid-July speech endorsed the program for the first time. Such a situation does not augur well for an early liberalization of the government's economic policies, which the Organization for European Economic Cooperation (OEEC) has been seeking.

Finance Minister Navarro Rubio, chief proponent of the stabilization program, stated publicly on 27 July that the present problem was to reactivate and "restructure" the economy, while at the same time maintaining present fiscal and monetary controls to prevent recurring inflation. He proposed to achieve this reactivation by providing medium- and long-term credit on a selective basis. His approach is not likely to succeed unless the deep-seated uncertainty of potential Spanish investors regarding future economic policy is dispelled. The American Embassy in Madrid feels that the government must take bold steps



NAVARRO RUBIO

to create conditions which would make possible a general reorganization of the economy.

Minister of Industry Planell, who is a leading opponent

of the stabilization program, appears unconcerned about reorganizing the economy. In a mid-July press interview he indicated disagreement with the



PLANELL

general fiscal and monetary controls set up under the program and expressed the view that the program's objectives should be considered achieved. He called for reactivation of demand, even at the risk of inflation, through direct intervention in specific sectors of the economy rather than through the general economic regulation employed up to now.

Planell, reflecting the interests of vested groups, is also reluctant to remove existing curbs that discourage greater private investment. Late in June, in response to proddings by the finance minister and the OEEC for greater liberalization in this field, he announced controls would be lifted but only in cases where investment in new plants or expansion of existing plants did not exceed \$33,000 and envisaged no imports of machinery or raw materials.

Labor Discontent

For some time labor has felt the lag in industrial production as layoffs and dismissals have mounted in various parts of the country. Recently there have been fairly large-scale

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dismissals in factories in Madrid, Burgos, Bilbao, and Barcelona involving from 21 to 59 percent of the working force, and a large machinery manufacturing plant in Barcelona is reportedly faced with the prospect of closing down and dismissing all of its 3,601 employees if it does not receive new orders in the next two months. The American Embassy believes there are numerous other instances of sizable dismissals.

Unemployment now exceeds 300,000, and the great majority of the jobless receive no unemployment compensation. In addition, most workers still on the job have lost overtime and other incentive payments. For some time there has been a widespread feeling among the workers that the sacrifices called for by the stabilization program have fallen primarily on their shoulders. With their per capita real income steadily declining since the 40-percent pay raise late in 1956, there is growing political pressure for a general wage boost as a matter of social justice. Many businessmen also favor it as a means of stimulating lagging consumer demand.

The finance minister has shown his concern for social justice by sponsoring legislation

to provide special funds to finance certain specific objectives, such as educational scholarships, improved housing, and loans for various groups in the lower income classes. This legislation was approved by the cabinet on 10 June, and the funds are expected to be available at the beginning of next year. At the same time, however, Navarro Rubio insists present fiscal controls must be maintained to avoid inflation. The Commerce Ministry, another proponent of the stabilization program, takes the position that economic stability is a prerequisite to the achievement of social justice and that the workers may imperil their "hard-won social conquests" if they demand wage increases.

Outlook

No early end to the economic recession is in view. Franco's announcement of support for the stabilization program does not ensure the resolution of cabinet differences over remedial measures to spur an expansion of output and the translation of intent into action. Meanwhile, it may be hard to head off worker agitation for wage raises with the admonition that labor will be better off in the long run if it forgoes pay hikes now.

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DEVELOPMENTS IN FRENCH-ALGERIAN PROBLEM

Prospects for an early resumption of cease-fire talks between French officials and Algerian rebel leaders are diminishing. Algerian hopes for increased international support have risen following UN intervention in the Congo, and there has been an upsurge of terrorism and military activity in Algeria. While French public opinion ap-

pears increasingly ready to support De Gaulle's preferred solution--self-determination leading to some degree of autonomy with close ties to France--the rebels now may be less inclined to accept such an arrangement.

Status of Cease-Fire Talks

Preliminary talks at Melun, near Paris, between French

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officials and Ahmed Boumendjel, representative of the Algerian National Liberation Front (FLN), were suspended in late June, largely over the issues of the scope of subsequent discussions and conditions for the reception in France of a rebel negotiating team headed by Ferhat Abbas, premier of the Algerian provisional government. The hard bargaining which characterized these negotiations indicated that substantive talks, when held, would be difficult and prolonged. Following the breakdown, it was felt in Paris that talks would not be resumed before the fall session of the UN General Assembly with its anticipated annual test of international support for the two sides. There now appears to be increasing pessimism in Paris whether they will ever begin again.

The French press bases its current discouragement primarily on international developments. In particular, it is believed in Paris that UN military intervention in the Congo may raise rebel hopes for similar UN action to settle the Algerian question. Until recently it had been assumed that the FLN would resume talks because it had no alternative to a continuation of the status quo and an eventual request for additional aid from Communist China. The Congo pattern now is seen as a way to permit internationalization of the conflict and avoidance of the necessity for a full rebel commitment to either France or the Chinese Communists.

In addition, there is speculation in Paris that the USSR may reverse its position and openly support the FLN. Khrushchev recently interceded on behalf of an Algerian terrorist who had been sentenced to death, and the Soviet press and the French Communist party have renewed their attacks on French

Algerian policy.

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Despite Moscow's apparent intention to adopt a more critical propaganda position toward France's Algerian policy, there is no other evidence that the USSR is considering actual recognition of the rebel government.

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The bulk of the French population appears increasingly favorable to De Gaulle's Algerian policy. Rightist opposition, while still potentially dangerous should there be any new development which could be interpreted as a "give away," is a less dominating factor on the domestic scene than formerly. There is also less talk about the danger of a coup in the relatively relaxed atmosphere that has prevailed since the Melun talks ended.

Military Situation

French Army operations in Algeria have continued without apparent letup since the end of the Melun talks. A major military move, "Operation Cigale," with the crack 10th Parachute Division as the principal army unit, was launched on 25 July in the Ouarsenis Mountains southeast of Orleansville. Although the operation was reported hampered by extreme heat and rebel dispersal into small groups, 169 rebels were killed and 65 taken prisoner during the first week.

Other French military activity has been largely devoted to cleaning out isolated pockets of rebel forces and, particularly along the Tunisian border, preventing large-scale breaches in the frontier barrages and

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replying to harassing fire from across the frontier. Progress was also reported made in pacification. The French have increased the number of "auto-defense" groups--civilian home guard units--in Algeria and the Sahara from 1,117 in June 1959 to 1,791 in June 1960.

Although some local rebel commanders were reported to have ordered an end to terrorist attacks following the rebels' agreement on 20 June to send representatives to Paris, they were apparently overruled by higher rebel authorities. French Army headquarters at Algiers noted that there were 38 incidents of terrorism in Algeria on 21 June compared with the daily average of 35 during the first three weeks of that month, and by late July terrorist outbreaks were reported to have reached the abnormally high level of 60 a day. In one of the worst terrorist attacks since the rebellion began, a band of 20-30 uniformed rebels machine-gunned a crowded bathing beach 45 miles west of Algiers on 31 July, killing 13 and wounding at least 7 others.

Study Commissions

Paris, meanwhile, has organized four 25- to 35-member commissions selected from Algerians elected as senators, deputies, mayors, departmental councilors, and members of chambers of commerce and agriculture. Moslems are in the majority on these commissions, although moderates among the European settler group are also included.

The commissions are scheduled to convene separately in Paris beginning in mid-Septem-

ber, each to discuss an assigned question, such as the modernization of agriculture, the role of local organizations in Algerian development, regional and departmental organization, and relations among the various ethnic groups of Algeria. The competence of the commissions apparently is not limited to these specific subjects and may include other matters of a general nature such as allocation of government jobs and promotion of Moslems. Although almost all members of the commissions favor De Gaulle's program for Algeria, there is no indication that the President will give them any political role which would be incompatible with the resumption of cease-fire talks.

The rebels and the "ultras" among the settlers have denounced the formation of the study commissions. The rebels see it as a move toward biasing any future settlement and threatening hopes for Algerian independence. The "ultras" view the action as a step away from their desire for integration with France.

It has also been announced in Paris that a new information service is to be set up in Algeria, probably directly under the delegate general. The new service reportedly will undertake the job of promoting the formula of Algerian "association" with France. The proposed scope of this operation among the local population is indicated by government plans to buy some 1,000 television sets for installation at each army-administered social center and elsewhere as part of the intensified information program.

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LATIN AMERICAN ATTITUDES TOWARD INTERNATIONAL AFFAIRS

The two meetings of American foreign ministers beginning 16 August in San Jose, Costa Rica, to discuss Venezuelan charges against Dominican dictator Trujillo and the Cuban issue will probably highlight Latin American attitudes on international affairs. All Latin American countries profess a strong attachment to the principle of nonintervention in the affairs of another country. These countries also show in varying degree an affinity for isolationism, a desire to pursue a course in foreign affairs, not exclusively identified with that of the United States, and a belief that the United States overrates the menace of international Communism.

Isolationism

Only the three major countries--Argentina, Brazil, and Mexico--consistently take an interest in world affairs. Latin America as a whole shows a basically isolationist position and has long opposed "entangling foreign alliances," not only for its own governments but to some extent also for the United States. The Latin Americans have criticized the Marshall Plan because it constituted a commitment outside the western hemisphere at a time when the Latin American republics had hoped the hemisphere could

go back to giving primary attention to its own affairs.

A letter to President Eisenhower in February 1960 --ostensibly from Chilean students but written by adult politicians and probably representative of the views of most non-Communist Chileans--was sharply critical of the inter-American system. It asserted that the treaties and



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other documents which established the system made solidarity with Washington a legal obligation but gave the United States more advantages and fewer obligations than the Latin Americans. The letter did not advocate terminating the relationship but did suggest three obligations for the United States: to work for Latin American disarmament, to support economic integration of Latin America, and to strive to eliminate dictatorships within the hemisphere.

The forces working against isolationism since World War II--such as the United Nations and improved communications--have been partly counteracted in Latin America by the decreasing influence within most countries of the well-to-do, who are most likely to have close personal or financial ties abroad. While this formerly dominant group is being ousted from government offices, foreign ministry personnel are usually the last to be removed. In Bolivia, the government claims to have deprived the traditional ruling group of all political power, and there is almost complete lack of interest in foreign affairs.

Throughout Latin America, interest even in the affairs of other countries is normally small, although the 30-year-old Trujillo dictatorship is widely disliked. Most governments until recently felt that the Trujillo dictatorship in the Dominican Republic was essentially Venezuela's concern. This feeling was dissipated only when Trujillo flagrantly disregarded the principle of nonintervention by becoming involved in the attempt to assassinate Venezuelan President Betancourt on 24 June. Most Latin American governments have seen Cuba as a problem primarily for the United States, a

position they have generally abandoned mainly because of Khrushchev's ambiguous missile threat and Cuba's resort in early July to the United Nations instead of the Organization of American States (OAS).

Attitude Toward Neutralism

Although all Latin American governments except the Cuban are consistently more friendly to the United States than to the USSR, few of them seek to identify their foreign policies exclusively with that of Washington. Even the small countries of middle America do not always feel constrained to adhere to international positions important to the United States. The intense enthusiasm for expression of an individual foreign policy is exemplified in Panama's drive to fly its flag in the Canal Zone as a manifestation of titular sovereignty there.

Temporary inclination toward the main adversary of the United States appeals to nationalist sentiment. Certain Latin American politicians such as Argentina's Peron, Brazil's Vargas, Chile's Ibanez, and Bolivia's Paz Estenssoro have revealed such motivation by their approaches to both Nazi Germany and Soviet Russia. The Latin Americans, however, rather than swinging between pro-US and pro-USSR positions, oscillate between a neutral and a pro-US stance.

Brazil's current attitude is an example. It is irritated because Argentina has taken over Brazil's role as Washington's most helpful friend among the major Latin American countries. Brazilians also feel Washington has not been enthusiastic over President Kubitschek's "Operation Pan America" (OPA), a proposal for an intense inter-American campaign against

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underdevelopment, which he terms a threat to hemisphere security.

Consequently, there has been conflict among Kubitschek's foreign policy advisers over tactics to gain more US support, the two main opponents being Foreign Minister Lafer, who favors a "hard line" on Soviet intervention in Cuba, and Kubitschek's principal adviser, Frederico Schmidt, who advocates seemingly neutralist tactics for bargaining purposes. Schmidt believes that "eliminating the Cuban problem" would reduce Brazil's "blackmailing" power for OPA.

Some Latin American officials share Lafer's opinion that Soviet intervention in the hemisphere poses a serious threat to the OAS. Nevertheless, there is a feeling, particularly in popular opinion but also among political leaders, that the United States exaggerates the Communist danger.

Pro-European Attitudes

Among the United States' OAS colleagues, the South American countries especially, a desire for increased independence from US policy is sometimes expressed in pro-European rather than pro-Soviet attitudes. Schemes have been proposed for a "union" of all Latin countries, for a Hispanic community, for a Franco - Latin American third force opposing "the material civilizations of the US and the USSR," or--prior to the large-scale withdrawal of the colonial powers from Africa--for a South Atlantic military pact. Prevailing pan-American concepts, however, have prevented any serious consideration of these schemes by most governments.

In Mexico, interest in independence from the United States

is not normally reflected in even temporary alignment with extra-hemisphere powers. Nevertheless the Mexican Government, alone among the Latin Americans, refused to sign a bilateral military agreement with the United States in the early period after World War II; it was one of two which abstained on the Caracas resolution of 1954 barring Communist domination from the area; and in the past year it has been more tolerant of pro-Cuban agitation within its borders than most other Latin American countries. Mexican attitudes tend to reflect nationalism and strained relations in the past with the United States rather than pro-Communist strength or a neutralist position.

Prospects

At the approaching OAS meeting the Latin Americans are likely to find a consensus in opposing Soviet intervention in western hemisphere affairs. In discussions of both the Trujillo regime--which is extremely unpopular among Latin Americans--and the Castro government--which in most countries has strong defenders in leftist groups--agreement will be more difficult since most countries will be reluctant to approve decisive OAS intervention in the affairs of another Latin American state.

The Ecuadorean president of the United Nations Security Council, during the discussion of Cuba last month when the USSR charged that Latin American history is one of open interference by the United States, expressed a view widely shared in Latin America: that the United States does not interfere in Latin America because the Latin Americans have struggled victoriously for the principle of nonintervention.

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